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THE WTO AGREEMENT ON AGRICULTURE: CONCEPTS AND OBLIGATIONS

TRAINING DOCUMENT

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The WTO Agreement on Agriculture: CONCEPTS AND OBLIGATIONS

The Agreement on Agriculture is considered to be the most far-reaching consensus on agricultural trade issues to date. The Uruguay Round of negotiations on the General Agreement on Trade and Tariffs (GATT) began in 1986 and ended in 1994. During those eight years of negotiations, one of the most vexing problems was the treatment of agriculture. In prior rounds of GATT negotiations, agriculture had essentially been "off the table" because of the sensitivity of the sector. Until the completion of the Uruguay Round, countries were able to use measures such as export subsidies and non-tariff barriers to manipulate international trade in agricultural products. Those types of trade policy instruments were not permitted for other goods.

The primary difference between agriculture and other sectors of an economy is the critical role of food and agriculture in sustaining human life and political stability. In developing countries, agricultural policies are generally directed at providing cheap food for poor consumers while in developed countries, excess production is more problematic. Domestic support programs that artificially lowered the cost of producing agricultural commodities contributed to production surpluses in developed countries while producer incentives in developing countries are often limited by controls on food prices. Surpluses of cereals, dairy, and other products in the European Union (EU) and the United States led to the use of export subsidies that also had the effect of reducing producer incentives worldwide.

The costs of export subsidy and domestic support programs were becoming increasingly burdensome on government budgets in the European Union and the United States. At the same time, the Cairns Group, a coalition consisting of, among others, Australia, New Zealand, Brazil, and Argentina--some of the lowest cost agricultural producers in the world--was pushing hard for an end to export subsidies in agricultural trade. In turn, the United States insisted that export subsidy elimination would be effective only with discipline on domestic support programs. It was also agreed that an end to non-tariff barriers in agricultural trade was necessary. These major concerns and major players dictated the content of the final Agreement on Agriculture.

The New Trading Environment

The Agreement on Agriculture includes provisions on:

- Domestic support;
- Market access;
- Export subsidies;
- Export prohibitions and restrictions;
- Sanitary and phytosanitary regulations;
- Special safeguards;
- Dispute settlement;
- Due consideration for least-developed and net food importing developing countries; and
- Continuation of the agricultural trade reform process.

WTO member countries have made commitments to limit or reduce domestic support, increase market access through lower tariffs and elimination of non-tariff barriers, and reduce export subsidies (see Table 1). Under the terms of the Agreement, reductions are made relative to average support and tariff levels in 1986-88. For export subsidies, reductions are made from

levels in 1986-90 or from 1991-92 if the latter is higher. The timeframe for the reductions is six years for developed countries (i.e., by 2000) and ten years for developing countries (i.e., by 2004).

Table 1. Domestic Support, Market Access, and Export Subsidy Reduction Commitments

Commitments	Developed countries (1995-2000)	Developing countries (1995-2004)
Domestic Support		
Total agricultural support reduction from 1986-88 base period	20%	13%
Tariffs		
Average reduction, all agricultural products	36%	24%
Minimum reduction per product from 1986-88 base period	15%	10%
Export subsidies		
Reduction in value of subsidies	36%	24%
Reduction in subsidized quantities from 1986-90 base period	21%	14%

Source: World Trade Organization.

Developing country members are given several concessions in each of the provisions outlined above. In addition, least-developed country members are not required to undertake any reduction commitments.

The specific provisions of the Agreement on Agriculture take precedence over related agreements such as the Agreement on Subsidies and Countervailing Measures (SCM Agreement) and the basic articles of GATT 1994. That means that any country abiding by the provisions within the agriculture agreement on, for example, domestic support subsidies, is not subject to imposition of countervailing duties under the terms outlined in the SCM Agreement. In the SCM agreement, preliminary countervailing duties can be applied before determination of injury or threat of injury to a domestic sector due to export subsidies. However, in the case of agricultural goods, countervailing duties may only be applied after full investigation and determination of injury or threat of injury.

Disputes related to trade in agricultural goods begin in the Committee on Agriculture at the WTO. That committee is also the body to which members report progress on their commitments and file required notifications.

Domestic Support Provisions

The domestic support provisions of the Agreement on Agriculture classify programs on the basis of whether they are trade distorting or non-trade distorting. Reductions are required only for those policies that are trade distorting.

Domestic Support Policies Subject to Reduction Commitments

The domestic support provisions of the Agreement on Agriculture place limits on the aggregate expenditures any government can make on trade distorting agricultural programs. These policies fall into what is known as the "amber box" (the term comes from the comparison of policies with a traffic light where red (amber) means stop). Within the amber box, there are two classes of policies. The first are market price support programs that maintain domestic commodity prices above world prices. Examples include government procurement programs or minimum commodity prices. The second group includes policies that directly reduce producer costs. Representative policies in this group are input subsidies and some direct payments to producers.

Each WTO member country has submitted a schedule of commitments that outlines their limits on and/or reductions in their Aggregate Measure of Support (AMS). All WTO member countries are required to submit an annual notification of their commodity specific, non-commodity specific, and total AMS to the WTO.

The AMS is a measure of the total expenditures (e.g., budgetary outlays) by a country on trade distorting agricultural policy programs. The AMS includes the value of commodity-specific and non-product-specific expenditures. Examples of commodity-specific programs are government purchase programs for a specific product like wheat or a subsidy on an input that can only be used for a single product (e.g., wheat seed). Non-product-specific programs include subsidies generally available to any agricultural producer such as below market interest rates or fertilizer price discounts.

The total AMS is derived by adding up the commodity and non-commodity-specific support after deducting *de minimis* exclusions. The *de minimis* clause permits a country to exclude any commodity specific support that is less than the equivalent of five or ten percent of the value of the production of the specific product. The five percent exclusion applies to developed countries and the ten percent exclusion to developing countries. In addition, if non-product-specific support is less than five (ten) percent of the value of all agricultural production, it too may be excluded from the AMS.

Only the aggregate AMS is subject to reduction commitments. For any developed country where the total AMS is not subject to reduction commitments, domestic support expenditures in any year can not exceed five percent of the value of all agricultural production (after *de minimis* exclusions). For developing country members, annual support may not exceed ten percent of the value of agricultural production.

Green Box Policies are Exempt from Reduction Commitments

Agriculture-related policies that are not trade distorting are permitted under WTO disciplines. In general, such programs must be publicly funded, not include transfers from consumers, and there may not be a producer price support effect. Programs specifically listed in the Agreement that fall into this so-called "green box" category are:

- Expenditures on programs providing services or benefits to agriculture or rural communities, including:
 1. Research expenditures;
 2. Pest and disease control;
 3. Training services and facilities;
 4. Extension and advisory services;
 5. Inspection services;
 6. Marketing and promotion services excluding expenditures used to reduce selling prices or give a direct economic benefit to purchasers; and
 7. Infrastructure such as electricity, roads, market facilities, water supply facilities, dams, drainage schemes, and environmental-related programs.
- Public stockholding for food security purposes if operation of the program is transparent, based on predetermined targets, and purchases and sales from the stock are made at market prices;
- Domestic food aid if operation of the program is transparent, aid is given based on clearly-defined criteria related to nutritional objectives, and Government purchases for food aid are made at market prices;
- Direct payments to producers that are independent of current production, prices, and/or input use and are based on clear criteria, including:
 1. Income support payments;
 2. Income insurance and income safety-net programs;

3. Natural disaster relief;
4. Producer retirement programs designed to remove surplus labor from agriculture;
5. Resource retirement programs providing for permanent disposal of animals or retirement of land for at least three years;
6. Investment aids to producers to correct or compensate for structural disadvantages;
7. Payments under environmental programs that are limited to the extra costs or income loss due to a producer's compliance with the program; and
8. Regional assistance programs for disadvantaged regions.

In addition, developing countries are not required to reduce expenditures on development programs:

- Investment subsidies generally available to agriculture;
- Input subsidies directed at the most resource poor producers; and
- Expenditures on programs designed to encourage diversification from growing illicit narcotic crops.

An exemption on direct payments to specifically limit production is also available to any member country. This clause in the Agreement is a concession to developed countries that are struggling with excess production. Support payments that fall in this "blue box" need not be reduced and can be excluded from the calculation of the total AMS if:

- Payments are based on fixed area and yields; or
- Payments are made on 85 percent or less of the base level of production; or
- Livestock payments are made on a fixed number of head.

Each original member country of the WTO has identified and reported the value of expenditures on these green box, development, and blue box programs. Acceding countries must also report on these programs as part of their application process. Any changes to the operation of these programs or new exempt programs require notification. Members should notify the WTO in advance and at a minimum, must notify within 30 days of adoption of the program.

The Record on Domestic Support

In 1995, the value of all domestic support programs (including amber, green, blue, development, and *de minimis* expenditures) in countries required to notify such expenditures to the WTO were US\$285.7 billion. Three WTO member countries--the EU, Japan, and the United States--accounted for 85 percent of all support (see Table 2). In the same year, 40 percent of total expenditures were subject to reduction commitments. Green box and development program expenditures accounted for another 47 percent and blue box policies for 12 percent. Exclusions under the *de minimis* concession were only two percent.

Table 2. Domestic Support in 1995 in WTO Reporting Countries

	Total domestic support (million US\$)	Share of policy expenditures requiring reductions (percent)	Share of policy expenditures in the green box (percent)
All reporting countries	285,724	40	44
EU	113,239	54	21
Japan	69,607	52	47
US	60,926	10	76
Korea	8,257	33	63
Switzerland	5,924	61	39
Brazil	5,531	0	88
Mexico	4,021	17	60
Norway	3,316	47	20
Canada	3,031	19	51
Thailand	2,202	29	62
South Africa	1,380	33	55
Venezuela	1,259	43	43

Source: USDA (WRS-98-4).

Market Access Provisions

The market access provisions of the Agreement on Agriculture relate to tariff bindings, reductions in tariffs, and the conversion of non-tariff barriers to tariffs. Trade barriers other than ordinary customs duties are generally prohibited under the terms of Agreement. These include quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state trading enterprises, voluntary export restraints, and such.

Tariffs are Bound and Must be Reduced

Each WTO member country has established a maximum tariff to be applied to each agricultural product by the end of the respective implementation period. These bound rates cannot be increased without notification and compensation to injured countries. The simple average of bound rates must decline by specified percentages and line-item tariffs must be reduced by at least 15 percent for developed countries and 10 percent for developing countries.

Conversion of Non-Tariff Barriers to Tariffs

Where non-tariff measures generally resulted in either very low imports or the equivalent of a prohibition on imports, a tariff rate quota (TRQ) had to be introduced. The TRQ system imposes two tariff rates. Usually, there is one relatively low rate for imports within the quota level and a higher rate for imports above the quota. The quota amount is initially three percent of base period consumption and must rise to five percent of consumption by the end of the implementation period.

The Agreement on Agriculture contains specific guidelines for computing the tariff equivalent of a non-tariff barrier. The tariff equivalent is defined as the difference, in either percentage or absolute terms, between a representative (domestic) wholesale price for a product and its external price converted to the local currency. The external price should be the average cost, insurance and freight (c.i.f.) unit value for the country or, where no such price is available the equivalent of

the c.i.f. price can be estimated from exporter unit values adjusted for insurance, freight and other costs to the importing country.

There are no specific rules contained in the Agreement on Agriculture on how the minimum access quantities under TRQs are distributed. That means that traditional suppliers of a product can receive preferential treatment by being allocated all or a large share of the quota, effectively reducing opportunities for new suppliers. Some countries have even allocated quota shares to countries with little incentive to import, forcing other countries to pay higher above-quota tariff rates for their products.

Of those countries that have converted non-tariff barriers to tariffs, about half of the tariff lines have not been enforced and so there is just a single tariff with no limit on imports. The other half of tariff lines use different methods for allocating quota amounts. The most common approach has been to license imports at the in-quota tariff (see Table 3).

Annex 5 of the Agreement on Agriculture details special conditions under which the conversion of non-tariff-barriers to ordinary customs duties is not required. Section A of the special treatment clause deals with a primary agricultural product and its "worked and/or prepared" products. NTB conversion is not required on the products, nor is a minimum access quota on the primary product required if:

- Imports of a product were less than three percent of consumption in the 1986-88 base period;
- No export subsidies have been provided on the worked or prepared products derived from the primary product;
- Effective production-restricting measures are applied to the primary product;
- The products are designated for special treatment in the country's schedule of commitments; and
- Minimum access opportunities for the worked or prepared products are four percent of base period consumption and increase by 0.8 percent of consumption during the implementation period.

In Section B of Annex 5 of the Agreement, special treatment for a primary agricultural product that is a food staple in the traditional diet of a developing country is permitted. The first four conditions above must be met for the product (i.e., very low base imports, no export subsidization in the past, effective production-restricting measures are in place, and the product is designated for special treatment in the schedules). Minimum access for such products may be set initially at one percent of consumption in the base period, rising to two percent at the beginning of the fifth year of implementation, and ending at four percent by the beginning of the tenth year of implementation.

The Record on Market Access

In 1996, the UN Conference on Trade and Development (UNCTAD) undertook a review of bound tariffs in developed countries. They found that tariffs on dairy products will decline the least and those for flowers, plants, vegetable materials and minor agricultural products will decline the most (see Table 4). Note that reductions for animals and animal products will also be below the average rate of 34 percent. Fruit and vegetable tariffs will decline by an average of 36 percent.

Table 3. Conversion of Non-Tariff Barriers to Trade Among WTO Member Countries

Conversion Method	Explanation of Quota Allocation	Number of tariff lines	Percent of tariff lines
Applied Tariff	Unlimited imports are allowed (no quota)	646	50.5%
License on Demand	Licenses are required to import at the in-quota tariff. If the demand for licenses is less than the quota, Q, this system operates as a First-Come, First-Served system. If demand is greater than Q, the import volume requested is reduced proportionately among all applicants.	314	24.6%
First-Come, First-Served	The first Q units of imports to clear customs are charged the in-quota tariff; all subsequent imports are charged the over-quota tariff.	104	8.1%
Auction	The right to import at the in-quota tariff is auctioned.	76	5.9%
Historical	The right to import at the in-quota tariff is allocated to firms on the basis of their trading volume in previous periods.	30	2.3%
State Trading	The right to import at the in-quota tariff is granted wholly or primarily to a state trading organization.	22	1.7%
Producer Group	The right to import at the in-quota tariff is granted to an organization representing producers of the controlled product.	8	0.6%
Mixed	A combination of two or more of the seven methods above.	47	3.7%
Other or Not Specified	Methods that do not correspond to the seven methods above or are not listed.	31	2.4%

Source: ERS (WTO Briefing Room).

Table 4. Bound Tariff Reductions for Agricultural Products in Developed Countries

Product Group	All developed countries	North America	Western Europe
		(percent)	
Animals and products	32	36	25
Beverages and spirits	39	43	31
Coffee, tea, cocoa, sugar	34	35	29
Dairy products	26	--	--
Flowers, plants, vegetable materials	48	--	--
Fruits and vegetables	36	38	32
Grains	39	--	--
Oilseeds, fats, and oils	40	43	34
Spices and cereal preparations	35	--	--
Tobacco	36	39	28
Other agricultural products	48	49	44

Note: '--' denotes not available.

Source: UNCTAD (TD/B/COM.1/2/Add.1).

The reduction in average tariffs does not take into account the importance of each product in agricultural trade. When tariff reductions are compared after accounting for the share of each product in agricultural imports, average reductions are generally lower, falling in the range of 20-27 percent (see Table 5). There are some exceptions to this rule. For example, New Zealand will reduce tariffs on its major imported products by 46 percent while Turkey will reduce them by only 15 percent.

Table 5. Trade-Weighted Tariff on Major Imported Imports for Selected WTO Member Countries 1/

Country	Average base (1986-88) tariff	Average bound import tariff 2/ (percent)	Reduction in the average tariff
Bulgaria	66.8	49.2	26
Canada	19.2	14.9	22
EU	19.6	14.3	27
India 3/	64.1	118.2	--
Israel	71.4	57.8	19
Morocco	98.5	74.7	24
New Zealand	14.7	7.9	46
Turkey	88.5	75.3	15
Tunisia	93.4	69.0	26
U.S.A.	10.0	7.9	21

1/ Average trade-weighted tariff for goods accounting for 75 percent of the value of all agricultural imports. Unit tariffs were converted to ad valorem equivalents using the average import unit value in 1995-96. The average value of imports in 1995-96 was used to weight both base and bound tariffs.

2/ The average bound tariff is the level that will prevail in the year 2000 for developed countries and 2004 for developing countries.

3/ The increase in India's tariffs reflects the broad use of non-tariff barriers (NTB) prior to GATT 1994. The average base tariff calculation does not take the tariff equivalent of NTBs into account and therefore statistically, bound tariffs appear to be higher.

Source: Computed from official tariff schedules reported to the WTO and from FAO trade data.

There currently are 33 WTO member countries that have TRQs in place. Eleven countries--the EU, Hungary, Korea, U.S., Colombia, Slovakia, Czech Republic, Thailand, Poland, Norway,

Venezuela, and Iceland--account for over half of the enforced and notified TRQs. Notified TRQs are those where the quota limitation has not been activated but may be activated at any time.

Export Subsidy Provisions

Export subsidies that directly or indirectly reduce the offer price of a good are generally prohibited under the terms of the Agreement on Agriculture. In addition, those countries that had export subsidies in the base period are required to reduce both the value and quantity of subsidies. Specific subsidies that must be reduced are:

- Direct subsidies to a firm, industry, producer, cooperative or marketing board that are contingent upon export performance;
- Sale or disposal for export of non-commercial stocks of a product at a price lower than the comparable domestic product price;
- Payments on export of a product that are financed by the government, including payments derived from producer levies;
- Subsidies to reduce the cost of marketing exports (such as handling, upgrading, other processing costs, and international transportation costs) excluding widely available export promotion and advisory services;
- Internal transport and freight charges on export shipments if the terms are more favorable than for domestic shipments; and
- Subsidies contingent on the incorporation of an agricultural product in exported products.

Developing countries are not required to reduce subsidies on internal transportation and freight charges and may also continue subsidies on products contingent on incorporation of a product in exported products. However, such subsidies must not be used to circumvent reduction commitments on the other elements that are subject to reduction commitments.

There are provisions in the Agreement on Agriculture that permit export subsidies in excess of the annual commitment level but only if cumulative subsidy expenditures and/or cumulative quantities subsidized are within the total limit on subsidies to date. Nevertheless, by the end of the implementation period, the value of export subsidies must be no greater than 64 percent of the base level and the quantity of subsidized exports can not exceed 79 percent of the base.

The Agreement also stipulates that WTO members will work toward an internationally agreed discipline on provision of export credits and export credit guarantees or insurance programs which will become binding on members. In addition, those members that are donors of international food aid agree not to link the giving of food aid with commercial imports of agricultural products by recipient countries and, to the extent possible, agree to provide aid in grant form.

The Record on Export Subsidies

Export subsidies in 1986-90 averaged US\$19.0 billion. The bulk of subsidies were on wheat, beef, coarse (feed) grains, butter and butter oil, sugar, cheese, and other milk products. By mid-2001, the total value of export subsidies will decline to US\$12.2 billion (see Table 6).

Permissible unit subsidies on some agricultural products will remain quite high. For example, if the per unit subsidy for each product in 2001 is applied exclusively to the unprocessed form of the product, subsidy rates of 60 to 100 percent are possible for rice, coarse grains, oilcake and meals, beef, butter, and sugar. Note however that subsidies are not applied only to the unprocessed form of the good and therefore these subsidy rates can only be considered indicative.

Thus far into the implementation period, most countries have been able to meet their export subsidy reduction commitments. This is in large part due to the high commodity prices that

prevailed in world markets in 1995 and 1996. When world prices are high, they are closer to domestic prices and therefore a lower unit subsidy is required to bridge the gap between domestic and international prices.

Table 6. Export Subsidy Reduction Commitments

Product	Subsidy value		Subsidized quantities		Unit subsidy		World price 1/	Unit subsidy share 2/
	Base	Final	Base	Final	Base	Final		
	(million US\$)		(metric tons)		(US\$/metric ton)			(%)
Grains								
Wheat	3,483	2,235	49,612	40,360	70	55	156	35
Rice	230	165	604	503	381	328	320	103
Coarse grains	2,258	1,445	20,581	16,260	110	89	101	88
Oilseeds and products								
Oilseeds	130	83	2,508	1,982	52	42	260	16
Oilcake and meal	7	4	30	25	233	160	261	61
Vegetable oils	199	130	1,585	1,370	126	95	532	18
Animals and animal products								
Live animals	623	394	--	--	--	--	--	--
Beef	2,802	1,796	1,583	1,270	1,770	1,414	2,254	63
Butter and butter oil	1,996	1,278	618	490	3,230	2,608	3,310	79
Cheese	819	524	543	430	1,508	1,219	--	--
Eggs	125	80	166	131	753	611	--	--
Pigmeat	505	323	612	484	825	667	--	--
Poultry meat	323	207	726	583	445	355	--	--
Sheepmeat	32	21	30	25	1,067	840	2,113	40
Skim milk powder	746	477	578	457	1,291	1,044	--	--
Other milk products	1,877	1,201	3,326	2,744	564	438	--	--
Fruits and Vegetables	800	519	9,268	7,582	86	68	477	14
Sugar	1,731	1,175	6,304	5,070	275	232	246	94
Wine	107	69	--	--	--	--	--	--
Tobacco	96	66	228	185	421	357	--	--
Cotton	85	64	95	82	895	780	1,683	46

Note: Subsidization occurs at different stages of processing across and within commodities and therefore the unit subsidy represents an average across potentially differing products. The indicative world price is generally for the least processed stage of the good and so the unit subsidy share should be considered indicative only.

1/ Average price for an indicative (primary) product in a major international market from January 1990 through mid-1998.

2/ Final unit subsidy as a share of the indicative world price.

Sources: UNCTAD (TD/B/COM.1/2) and EASI Global Price Database.

Provisions on Export Prohibitions and Restrictions

Exports of an agricultural good may be prohibited or restricted but only under specific circumstances. First, the member country instituting the prohibition or restriction must give "due consideration" to the effects of the prohibition or restriction on the food security of importers of the product. Second, before any prohibition or restriction is enacted, written notice must be given to the WTO. The notice must include information on the nature and duration of a prohibition or restriction. Third, the notifying country must consult, upon request, with any member country with a substantial interest as an importer of the good in question. Developing member countries are not subject to any of the above restraints unless it is a net exporter of the commodity.

Sanitary and Phytosanitary (SPS) Provisions

Within the Agreement on Agriculture, member countries agree to "give effect" to the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). This means that members will strive to comply with the SPS Agreement. That agreement permits countries to use SPS measures to protect the life or health of humans, animals, or plants but only based on scientific standards. Full compliance with the SPS Agreement can be obtained by application of the international standards of the Codex Alimentarius Commission, the International Office of Epizootics, and the relevant international and regional organizations operating within the framework of the International Plant Protection Convention. Countries may apply measures that are stricter than international standards, but scientific evidence must support the higher standards.

Countries must allow imports from countries with different SPS rules if the exporters demonstrate their measures are equivalent to those of the importers. The SPS Agreement also requires countries to notify its trading partners, through the WTO, of changes in SPS measures that may affect trade.

Least-developed country members have five years within which to become fully compliant with the SPS agreement. Developing country members have two years. However, provisions exist for extension of these time frames if necessary to develop the technical capacity to implement SPS regulations.

Special Safeguards

The Agreement on Safeguards of GATT 1994 allows countries to take action against exporters of any good if the good is entering the importing country in such a quantity relative to domestic production that the domestic industry is injured or there is a threat of injury. Safeguards such as import restrictions or increases in tariffs may be applied after a formal investigation has found injury or threat of injury to the domestic industry. Within the Agreement on Agriculture, there are "special" safeguard measures that may be applied without the formal investigation.

The Agriculture Agreement outlines specific criteria under which a country may unilaterally apply special safeguards. The criteria are related either to the increase in import quantities of a good relative to a base period or to the price at which the good is imported relative to a base price. If the criteria are met, the specific level of the safeguard, in terms of either a quantity restriction or unit tax on imports, are determined by formulas contained in the special safeguard provisions.

The special safeguards can only be applied in those cases where a non-tariff barrier has been converted to a tariff barrier. Thus, the intent of this provision is to protect those countries where calculation of the tariff-equivalent of a non-tariff barrier may not have afforded a level of protection comparable to pre-WTO levels.

Notification Obligations under the Agreement on Agriculture

The Agreement on Agriculture requires that each member country notify the Committee on Agriculture of its progress toward reduction commitments and the status of its special safeguards. Notifications relating to reduction commitments must be made annually; least-developed countries may notify every two years. Notifications pertaining to special safeguards must be made annually. If special safeguards have not been used during the year, a statement to that effect is required.

In addition, any program or policy changes or additions within the general areas of domestic support, market access, export subsidies, provision of food aid, export restrictions, and the decision on least-developed and net food importing countries must also be notified. These notifications are on an ad hoc basis.

Each of the notifications must be made in a specific format and contain specific information. The notifications are reviewed in the Committee on Agriculture. During the review process, any member country may ask for clarification of any data provided in a notification. Responses to such questions may be given at the Committee meeting or, at the request of the notifying countries, written responses may be submitted at a later date.

The notification requirements under the Agreement on Agriculture have been identified as one of the most burdensome aspects of the agreement (the technical handbook on agricultural notifications is 135 pages). On the other hand, the transparency that the process is bringing to domestic support and trade policies is invaluable to researchers and others striving to understand market economics.

Other GATT 1994 Agreements that Apply to Agriculture

In addition to the SPS Agreement mentioned above, there are four other agreements within GATT 1994 that may apply to agricultural products. They are the Agreement on Subsidies and Countervailing Measures (SCM), the Agreement on Technical Barriers to Trade (TBT), the Agreement on Safeguards, and the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (the anti-dumping agreement). The SCM and anti-dumping agreements apply to agricultural products that are not subject to export subsidy reductions under the terms of the Agreement on Agriculture. The TBT Agreement applies to all agricultural products. The Safeguards Agreement can be applied to any agricultural product that has not been designated for special safeguards.

Under the SCM Agreement, specific provisions for taking action against a country that is subsidizing exports of any product are outlined. The importing country or any third country must prepare documentation in support of the existence and nature of the subsidy and request consultation with the subsidizing country. If an agreement cannot be reached between the countries within 30 days, the issue may go before the Dispute Settlement Body (DSB) of the WTO. If it is found that subsidies are being used, the exporting country must stop using subsidies within a specified period of time. If the exporting country does not stop using export subsidies, the injured country may impose countermeasures.

The TBT Agreement prohibits the use of standards to limit trade. This means that labeling, size, and marking standards, for example, may not differ for imported and domestically produced goods (the so-called national treatment condition). Technical regulations must fulfill a legitimate objective such as national security requirements, the prevention of deceptive practices, or protection of human health or safety, animal or plant life or health, or the environment. The regulations must be based on available scientific and technical information when determining the

risks associated with importing the product. If international standards exist, then they should be used unless they are not sufficient to provide the necessary protection for the reasons noted above.

The Agreement on Safeguards can be used in cases where imports of a product are occurring at such a rate as to cause damage to a domestic industry. The injured country must carry out a full investigation, following the specific guidelines outlined in the Safeguards Agreement. In order to apply safeguards, the investigation must conclude that the product is being imported in such increased quantities, absolute or relative to domestic production, and under conditions likely to cause or threaten to cause serious injury to the domestic industry. When injury is shown, safeguards in the form of additional duties may be applied on all imports of the product.

The anti-dumping agreement applies in cases where the price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when consumed in the exporting country. Generally, the sale price of an exported product must be equal to or greater than the cost in the exporting country plus administrative, selling and general costs, and a profit margin. There are very explicit guidelines in the agreement on determining the appropriate costs and profit relative to the domestic market price in the exporting country.

Any allegation of dumping must be investigated the appropriate governmental authority in the importing country. The investigation must be initiated by written request by or on behalf of the domestic industry. During the investigation, both the volume of the dumped imports and the effect of the dumped imports on prices in the domestic market for like products and the consequent impact of these imports on domestic producers of such products must be assessed. If dumping is found to have occurred, the injured country may impose an anti-dumping duty that effectively removes the price discount. The anti-dumping agreement also contains provisions for imposition of preliminary anti-dumping duties or of a security in cash or bonds equal to the expected anti-dumping duty.

Note that the remedy under the anti-dumping agreement differs from that under the Safeguards Agreement in that anti-dumping duties are applied only to imports from the country found to have dumped the product. In the case of the Safeguards Agreement, remedy applies to all suppliers.

Continuation of Reforms

In Article 20 of the Agriculture Agreement, the signatories agree to continue the reform process started under the terms of the agreement. The so-called Mini-Round of negotiations on continued reforms in agricultural trade must begin no later than one year before the end of the implementation period (i.e., in 1999).

Member countries have periodically submitted information to the Committee on Agriculture in regard to possible agenda items for the Mini-Round. While a consensus on negotiation issues is far from established, there are several issues that negotiations are likely to address. As noted by the Economic Research Service in a recent report, these issues include:

- More liberal market access;
- Continued reductions in domestic support;
- Continued reductions in export subsidies;
- Stricter disciplines on the activities of state trading enterprises; and
- Tighter restrictions on the use of SPS.

The market access issues are most likely to be concentrated in TRQ administration although more cuts in bound tariffs will also get attention. Some TRQs have not been filled (i.e., imports have been less than the quota allowance) because the in-quota tariff is too high or the TRQ has not been properly administered. If there are TRQ administration methods that have a tendency to lead

to under filled quotas, they are trade restricting and therefore may be prohibited under WTO disciplines.

Within the domestic support area, questions have been raised on whether green box policies really are non-trade distorting. Since there has been little (if any) research on this issue, it is unlikely that a strong case for removing some policies from the green box can be made. Calls for elimination of the exclusion on blue box programs--direct payments to limit production--are increasing. For example, it has been argued that importers of products that are subject to production limiting programs are probably paying artificially high prices for the product. And, these programs may increase production in the future because they reduce risks associated with farming and increase wealth, especially if payments are larger than needed to compensate for resource idling.

As noted above, the value and quantity of subsidies that can legally be applied to agricultural products at the end of the implementation period are still quite generous. Therefore, these policies will continue to distort trade and reduce incentives to producers worldwide. New Zealand in particular would like an end to subsidies and is likely to push its Cairns Group partners in the direction of insisting on either deep cuts in subsidies or their elimination.

State trading enterprises (STEs) are government agencies that control either imports or exports of specific products or a group of products. They are targets for discussion because they can make import decisions on the basis of non-economic (non-price) factors. While this is forbidden under GATT 1994 rules, the lack of transparency in STE operations has led some to question whether they can be used to circumvent WTO obligations.

The SPS Agreement requires countries to base all such regulations on scientific risk measures and limit SPS rules to only those necessary to protect plant, animal and human health. What the Agreement does not address is how countries should establish the appropriate SPS regulations nor does it ensure that protection is consistent across countries.

Application of Provisions to Jordan

Jordan will be subject to all of the disciplines within the Agreement on Agriculture that apply to developing countries. Since Jordan has not and does not now use export subsidies as specified in the Agreement on Agriculture, there are no reduction commitments related to such programs. However, Jordan will be subject to domestic support limitations, market access commitments, and the SPS regulations and may make use of the special safeguards provisions. Jordan will also have to abide by and may take advantage of the associated agreements on subsidies and countervailing duties, technical barriers to trade, safeguards and anti-dumping.

Jordan's Domestic Support

Jordan has chosen 1994-1996 as its base period for calculation of the aggregate measure of support (AMS). During those years, reforms in Jordan's agricultural policies were initiated and they have significantly reduced domestic support expenditures to date. In the base period, market price support operations were carried out for wheat, barley, lentils, and chickpeas. In addition, input subsidies were given in the form of below market prices for seed, water, credit, and livestock feed.

As can be seen in Table 7, Jordan's AMS is very low, amounting to only 0.1 percent of the total value of agricultural production. Support for wheat, lentils, and livestock producers are excluded from the total AMS because the value of support is less than ten percent of the value of production. Similarly, all non-commodity-specific support is excluded from the total AMS

calculation because the sum of water and credit subsidies is less than ten percent of the total value of agricultural production in Jordan.

Since the total AMS is below the *de minimis* percentage, Jordan is not likely to be subject to domestic support reduction commitments. Note that should a need arise for commodity specific or non-commodity specific support, Jordan will be able to spend up to its negotiated limit (specified as a percent of the current value of production) on such programs and still comply with all domestic support requirements under the Agreement on Agriculture. During the 1990s, the highest level of support to the agriculture sector has been around JD30 million. Latitude in domestic support expenditures may be useful in offsetting any short-term negative impacts of WTO accession on Jordan's agriculture sector.

Table 7. Jordan's Aggregate Measure of Support, 1994-96

	1994	1995	1996	Average 1994-96	Support share
	----- (thousand JD) -----			-----	(%)
Commodity specific support	29,274	-3,080	25,981	17,392	4.8
Wheat	943	227	-506	221	2.7
Barley	325	962	308	532	14.0
Lentils	1	-23	46	8	1.2
Chickpeas	3	1	166	57	11.4
Livestock	28,002	-4,246	25,966	16,574	4.8
Sector (non-commodity-specific) support	384	391	478	418	0.1
Water	144	78	62	95	--
Credit	240	313	416	323	--
Total AMS	--	--	--	588	0.1

Notes: '--' denotes not applicable. Support share is the value of commodity specific support relative to the value of commodity specific production or, in the case of non-commodity-specific support and the total AMS, relative to the value of all agricultural production. The total AMS excludes support that is less than 10 percent of the value of either commodity specific or all agricultural production.

Source: Ministry of Industry and Trade.

Green Box and Development Programs Expenditures

Jordan spent an average of JD77.3 million on green box (non-trade distorting) policies during the base period. Of that total, JD64 million or 80 percent of all green and development expenditures were on domestic food aid (see Table 8). Jordan's expenditures on development programs included investment subsidies of JD3 million while input (credit) subsidies to the most resource poor farmers were only JD 51,000. Since there are no limits on the value of green box or development program expenditures, Jordan may increase these expenditures at any time in the future.

Table 8. Distribution of Expenditures on Green Box and Development Programs

	All WTO Members	Jordan
	(Percent of total green and development expenditures)	
Domestic food aid	40.6	80.1
Infrastructure	27.8	10.0
Investment aids	12	3.7
Research, extension, and training	8.8	2.9
Other general services	10.8	3.4

Sources: USDA (WRS-98-4) and calculated from data supplied by the Ministry of Industry and Trade.

Jordan's Market Access Commitments

Traditionally, Jordan has had relatively few non-tariff barriers to trade in the agriculture sector. Import licensing procedures are fully compliant with WTO standards since they are granted automatically. The current prior approval requirements on essential foodstuffs are also acceptable under WTO disciplines as long as approval is automatic.

The terms of the Agreement on Agriculture required original developing country members of the WTO to the simple average of tariffs by 24 percent and reduce line-item tariffs by 10 percent. The bound (i.e., maximum) tariff for each agricultural product is currently being negotiated on a bilateral basis with WTO member countries. Reductions in line-item tariffs are also being negotiated.

Note that tariffs may be set anywhere within the bound level. That means that if, for example, international prices for powdered milk were to increase dramatically, the tariff on powdered milk could be lowered to reduce the per unit import price and then returned to the bound level in a subsequent year. This flexibility provides a means of countering price variability in international markets.

There are a few goods for which tariffs do not currently exist and will therefore have to be established. Current trade law bans imports of mineral water, fresh milk, and sheep above one and one-half years old. In addition, there have been governmental directives overriding current trade law either banning or limiting imports of olive oil and poultry meat. These trade restrictions will have to be converted to tariffs or tariff rate quotas when WTO accession takes place. Tariff rate quotas will be required for mineral water and fresh milk and also may be needed for olive oil and poultry meat. However, imports of sheep are well above three percent of consumption (i.e., slaughter) and so a TRQ may not be needed.

The bound tariffs, tariff reductions, and elimination of non-tariff barriers apply only with respect to other WTO member countries. Therefore, quantitative restrictions on imports of goods from non-WTO member Arab League countries may remain in force. That group of countries includes Algeria, Iraq, Lebanon, Libya, Oman, Palestine, Saudi Arabia, Somalia, Sudan, Syria, and Yemen. However, note that Algeria, Oman, Saudi Arabia and Sudan are in the process of acceding to the WTO.

Sanitary and Phytosanitary Regulations

While Jordan is a member of most of the international organizations overseeing establishment of sanitary and phytosanitary standards, it appears that some of Jordan's SPS standards are not comparable. Therefore, changes in SPS regulations may be necessary once Jordan becomes a WTO member. If changes are needed, compliance with new SPS standards may require the building of testing facilities, staff training, and other expenses, and so Jordan will probably request a phase-in period for full compliance with SPS regulations.

Special Safeguards

Jordan is requesting the use of special safeguards on a few key agricultural products. The negotiations on this point are ongoing and it is not clear whether special safeguard status will be awarded to the specified goods. If Jordan is not given special safeguard protection under the Agreement in Agriculture, it will have recourse to the provisions of the Agreement on Safeguards and the anti-dumping agreement.

The Government's Obligations under the Agreement on Agriculture

The Government will, at least initially, face several challenges when complying with the reporting requirements outlined in the Agriculture Agreement. In addition to the annual notification on domestic support, notification must be given of new or modified exempt domestic support programs (including green box and development programs). The notifications are fairly complex and will require cooperation among several Government agencies and Ministries.

Note that in order to take full advantage of the protection to importers afforded in the Agreement on Agriculture, considerable effort on the part of the government and the domestic industry may be necessary. For example, monitoring of import quantities, import prices, and domestic prices will provide indications of dumping or other unfair trade practices by exporters. If special safeguard status is awarded for key agricultural products, monitoring of trade in those products will be essential. Fortunately, the domestic industry will find that proactive role in monitoring is in its interest, reducing the burden on the Government.

On the other side of the coin, the Government's participation at the WTO in terms of review of member country agriculture notifications could be an important means of ensuring that markets for Jordan's primary export products remain as open as possible. In addition, particularly effective green box and development programs in other countries can be identified, increasing the value of such programs to Jordan.

Jordan can be an active participant in the Mini-Round negotiations once it becomes a member of the WTO. In the process of acceding to the WTO and developing negotiating strategy, some hindrances to maximizing Jordan's agricultural trade prospects have become obvious. Those barriers to increased exports should be on Jordan's list of issues to be addressed in the Mini-Round.

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Useful Web Sites with Information on Agriculture and Trade

Economic Research Service, U.S. Department of Agriculture	http://www.econ.ag.gov
Food and Agriculture Organization of the United Nations	http://www.fao.org
Foreign Agriculture Service, U.S. Department of Agriculture	http://www.usda.fas.gov
International Agricultural Trade Research Consortium	http://www.umn.edu/iatrc
United Nations Conference on Trade and Development	http://www.unctad.org
United States International Trade Commission	http://www.usitc.gov
World Trade Organization	http://www.wto.org